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April 3, 1991 **LETTER 1066**

GLOBAL SHOCKERS: (1) Everybody suspected it but nobody would say it -- "Stormin' Norman" Schwarzkopf finally let the cat out of the bag. Bush ordered a pullback, just when our military could have gone in and finished the job. So today we've got Saddam still in power, his Republican Guard still intact, Bush offering excuses, and thousands of Iraqis starving and dying. My opinion: it's a bungled mess with Iran probably the ultimate winner.

(2) Russia's on the edge of civil war or something close to it. Thousands of miners, plus thousands of citizens in Moscow take to the streets demanding that Gorby get out along with his whole Communist apparatus. Thus, Gorby and the party are fighting with the very citizens they are supposed to represent. The people have had it with Gorby and perestroika. If it's Communist, they don't want it.

(3) The astounding explosion in the dollar, up 20% against the mark in a matter of weeks! The higher dollar will also hurt US exports, since our goods will cost more overseas. Furthermore, overseas economies are now slowing down; consequently, they will be buying fewer imported goods.

MARKET: THE RALLY AFTER: When trying to gauge the strength or weakness of the market, a critical test is as follows: a market advance is underway. Somewhere along the line upside momentum will peak and the advance will come to a halt. The Averages will then back off or correct. The critical test is -- what does the recovery following the decline look like?

If the recovery is a powerful one, then the Industrial and Transportation Averages will BOTH rally to new highs.

But if, on the recovery, one average or the other fails to make a new high, then the path is open for trouble. Mind you, a failure to confirm is not a guarantee of trouble, but it opens the way for trouble.

What has this to do with the current market? Well, the advance from the January lows did halt. And we now have important upside levels to watch. The **D-J Transportation Average** recorded its rally high on March 5 at **1166.25.** The **Industrial Average** recorded its high on March 6 at **2973.27.**

If the Averages can better those preceding peaks the market will be giving the "all clear" signal, in which case we can expect higher prices. On the other hand, if one or both Averages fail to better their March highs, then the path is open for trouble.

Breadth: The strength of breadth on all three exchanges has been extraordinarily strong. In the last Letter I discussed the "**buying stampede.**" I said that the stampede would only end when the A-D ratio dropped a full point or more from its highest level. So far, the A-D has refused to give up one full point (on March 19 the A-D ratio declined to minus 11.72, the merest fraction away from breaking a full point, but the next day the A-D turned up again). Therefore, until the A-D ratio declines a full point the buying stampede will remain in force.

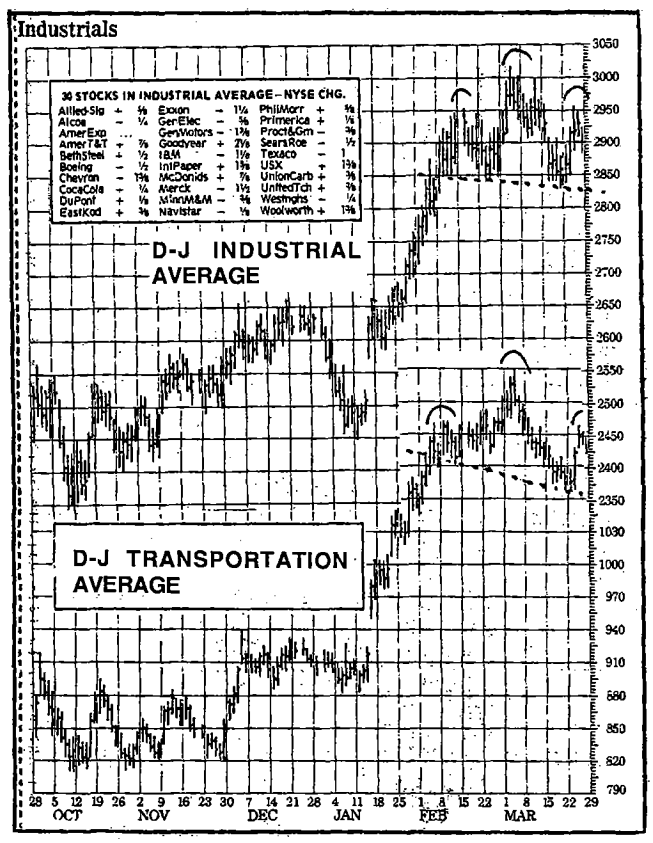
PRIMARY TREND INDEX (PTI): My PTI broke above its 89-day moving average on January 31 (which put it in the bullish mode). From there it advanced (see page 2 chart) to 3221 on March 5. The PTI then backed off grudgingly, then rallied again. As this is written, the PTI has advanced to a new high of 3227.

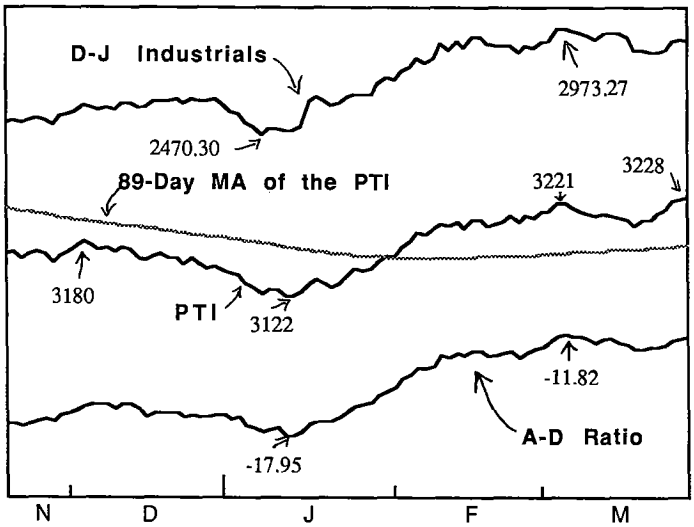
Mar. 22 DJIA 2858.91; PTI 3210; A-D Ratio -12.57
Mar. 28 DJIA 2913.86; PTI 3228; A-D Ratio -11.98
Dow Yield: 3.46%; Dow P/E: 16.8; DowPow: -44
Dow 200-day MA: 2689; Dow 30-day MA: 2906
Dow Book Value: 1276; PTI 89-day MA: 3176
Percentage of Undervalued Blue-chips: 15%

PATTERNS: (Refer to the page 1 chart, courtesy *WSJ*). As this is written, both the D-J Industrial and Transportation Averages have traced out potential "head-and-shoulders" tops. The question: do the two Averages have the power to plow up and above their early-March peaks, Industrials above 2973.27, and Transports above 1166.25 -- or is the market in the process of really topping out? Second question: are the potential head-and-shoulder tops too obvious ? What everybody sees and knows on Wall Street is often discounted (in other words, not a factor). We should know the answer to both these questions by the time you receive this Letter.

If the Averages turn down, the critical near-term levels are 2855.45 for Industrials, 1075.20 for Transports. If both of those lows are broken, we can expect a major decline.

On the sentiment side, there has been heavy insider selling of late. In fact, 76% of all insider transactions over recent weeks have been on the sell side. Also, specialist shorting has been very heavy, and the short interest on the NYSE has dropped sharply. The public has turned very bullish, buying heavily into mutual funds.





All in all, a most interesting picture. Keep your eye on the Dow and the A-D ratio. I feel that these two hold the key to the market at this juncture.

THE BIG PICTURE: I've been observing investors, talking to subscribers, yes, and fighting my own investment battles for 45 years. Now if you do anything for 45 years and you've got any brains at all, then you're almost sure to learn something about your subject.

Here's what I learned about making money. There are two sure, tried and true ways of making money. The first is simply to accumulate and compound. What you do is compound an item that provides a steady, safe return, and it doesn't matter whether it's a bond, an outstanding mutual fund or even a Treasury bill. You develop a system and stay with it. In time, you'll have more money than you need.

That's the first way of getting rich. The second way is to ride a primary bull market to conclusion. The second way is a bit more difficult, because you have the problem of deciding whether you're in a bull market or not.

As I said, either method will work. But I should add this -- the second method is really a variation of the first. In other words, the ideal way to build a fortune is to accumulate and reinvest (compound) -- in an ongoing primary bull market.

All right, the question. Are we in a primary bull market? I don't think so, and, of course, that's the reason I've had the bear in the box for so long. Here's my position -- I've felt that the great crash of 1987 was the beginning of the end for the bull market that began in December 1974 at 577.60 on the Dow.

I believe that all the major advances since the '87 crash were simply additional stabs by the averages into a top area, a top that can be identified by flagrant overvaluation in stocks.

Consider this: in 1987, the broad S&P 500 Stock Index sold (at the high) at 37 times dividends. This represented the greatest overvaluation in stock market history (yes, higher than 1929 or 1937 or 1966 or 1973). Right after the 1987 crash the S&P 500 corrected down to 26 times dividends (which was still definitely on the high side). From there the S&P 500 advanced to 31 times dividends in 1989, just before the October '89 mini-crash. Then, at the most recent highs, the S&P 500 rallied up to 30 times dividends again.

All of which confirms in my mind that this market is building a huge top. For the many who claim that Wall Street is now carving out a base from which a new bull move will spring, I should add that since the turn of the century, almost every bull market, almost every great buying area, began with the S&P selling in the 12 to 15 times dividends zone.

In other words, when the S&P 500 sells at or around **15 times dividends**, you know that on the basis of almost a century of market relationships, you are buying great VALUES. By the same token, anytime you buy stocks when the S&P 500 is selling at, or above 30 times dividends, you are buying trouble. You're buying into a top area.

At the recent 1991 highs the S&P was selling at 30 times earnings. Now we might conceivably see 31 or 33 times dividends before this year is out, but the risk/reward ratio is no longer in favor of the stock buyer. The plus or reward for buying stocks when the S&P is selling at 30 times earnings is that maybe, just maybe, the S&P 500 will push to 33 or 34 times earnings. But the greater risk is that you're buying into a major bear market top.

The talk ever since January is for 3000 on the Dow and then -- well, 3300 or 3500. Some of the other services put out statistical studies of the percentage of bullish or bearish services, but let me put it this way -- the public has turned very bullish, very. You can see the bullishness in the fact that almost all stocks floated up during January-March. Cats and dogs floated up, junk bonds surged, the market ballooned across the board.

The best kind of market moves (and I've seen dozens of them) are those bull market moves that grind up against a background sentiment that is black-bearish. That isn't what happened in 1991 when the market rushed up amid an atmosphere which can only be described as euphoric.

QUESTION: How can the US government continue to increase its debts at the rate of **$1.1billion a day** and still survive? Or, to put it another way, how can the dollar survive?

ANSWER: Financially, the US has been surviving by devaluing the item that its debt is denominated in -- namely, the dollar. Thus, the basic monetary policy of the US government is -- **inflation.** Sure, there have been periodic bouts of deflation and recession, but the main thrust has always been to inflation. So you destroy the debt-monster by destroying the unit (dollars) that debt is denominated in -- that's the basic US policy.

But wait -- there's a problem. As the currency is systematically destroyed, Americans perceive that their standard of living is declining. Dollars that are sinking in value mean that you pay more for food and clothes and movies and cars.

In the face of this policy of destroying the currency, businessmen and investors and people in general are impelled to take chances in order to keep up their standard of living -- they feel they must "beat inflation." So they enter schemes that they would ordinarily not participate in. Banks become speculators, S&Ls engage in surrealistic enterprises, businessmen become gamblers, entrepreneurs become LBO artists, "little guys" trade mutual funds, housewives play the commodities, and optimistic fools spend their money in Las Vegas.

What happens when a recession enters the picture and the various houses of cards crumble? What happens when the "thrift" institutions and the banks go belly up? Why if they're big enough, if they're "too big to fail," the government buys them up, holds them up, guarantees them, refinances them, reliquefies them. The government spreads out a "safety net" to catch the falling "specu-stars."

Thus the great inflation/robbery scheme goes on. But Karma exists even in economics. Every lie will eventually surface, every fraud will eventually be exposed. And that's exactly the problem that the US faces as it continues its policy of inflating and piling up debt at the rate of $1.1 billion a day. Ultimately, for the US, it becomes a case of **"inflate or die"**.

A primary bear trend is the economy's way of experiencing death. But governments, above all, want to live, and they will do

whatever they have to -- to survive. Consequently, the government will fight a bear market with all the tricks, gimmicks and power at its command.

Conclusion: The main force of the bear will be held off as long as the fraud of US inflation can be foisted on the world. When the markets will no longer accept US inflation (and I believe they're close to that now) then the hibernating bear will reveal himself -- in full.

FED DILEMMA: The inflation numbers came out on March 19. What they showed was that the "core" inflation rate (inflation minus the erratic moves of food and energy) was .7% or an annual rate of 8.4%. The core rate is usually considered the "real" rate or the rate that consumers have to deal with at the stores.

This chronic inflation rate is obviously the item that the Fed fears. If the core inflation rate is 8.4% during a recession, what will it be if the Fed continues to pump and if the economy turns up?

This line of thinking is obviously not lost on the bond market, which now appears to have topped out. With bond prices weak, long rates have crept up, and the long Treasury bond yields have now pushed up into the 8.25% area. Should there be a decided pick-up in the economy, the long rate could easily climb to 9% again.

So the best description of what's happening is this -- inflation at best is dormant, but it is ready to revive at any signs of a concerted economic upturn.

INVESTMENT POSITION: On one level, you might say that all investing (over the long term) is an attempt to increase your purchasing power, or at least hang on to it, in the face of the US government's policy of systematic dollar destruction.

This means (1) that you must do more right things than wrong things, and (2) above all you must avoid taking large losses. And remember, that old percentage problem in investing. If you buy a $50 stock and it drops to $25, you have sustained a loss of 50%. But in order to get your money back, that $25 stock has to rally to $50 -- and that requires an advance of 100%. That little problem in percentages explains why so many people lose money in the markets -- and never get even again.

And again it underlines Russell's first rule, which is, "Above all, don't lose money."

Despite the fact that the necessities of life are still inflating, I don't think this is a good time to try to beat inflation. First, stocks are not good values here. Second, a feeling of euphoria (based on our Persian Gulf victory) was at least partly responsible for the rally -- and euphoric market advances don't tend to last. Finally, I don't like the pattern of the Averages.

In this business, there's nothing wrong with watching and waiting ("When in doubt, stay out"). But it's important to be in a safe place while you wait. Safe places currently are Treasury bills, money market funds, government-issue only money market funds.

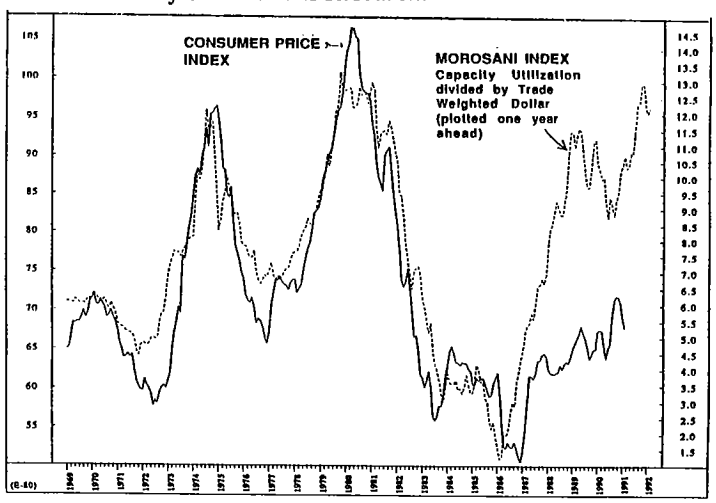
The dollar has been phenomenally strong over recent weeks. Dollar strength should be a big plus for US securities, at least as far as foreigners are concerned. It's been a while since a German or a Frenchman could buy a T-bill or an US stock and watch his investment increase because it is denominated in dollars. And it's been a while since an American could go to London and feel that his buck would buy something.

A view: in terms of purchasing power, ALL currencies have been declining, but some faster than others. For a long time the dollar was declining (in purchasing power) faster than the other major currencies. Now the major currencies, in terms of what they will buy, are declining faster than the dollar.

As I said above, investing today is a fight to retain one's purchasing power or standard of living. Your enemies are rising debt, rising taxes, and inflation. As to inflation, I don't care what nonsense the government puts out, the ordinary items, your groceries, your kids' schools, your electric bills, those costs keep going up.

A FEW KEY CHARTS: This is a chart of the **Morosani Index,** which has a long history of being an excellent inflation indicator. Here is its history going back to 1969. When the Index is plotted one year ahead of the CPI, note how well the fit is -- up until the last few years. Currently (gulp), the Morosani Index is predicting inflation of 12-13%. So why aren't we there? Has that sky-high inflation rate been smothered by the drop in the price of oil? Still the core inflation rate (rate minus energy and food) is over 8%.

Here are some statistics our government doesn't advertise: public transportation costs are up 14.3% over last year, medical costs are up 9.5%, educational expenses are up 7.7%, and renters' costs are up 7.6%. My guess is that inflation is ready to move up toward the level indicated on the Morosani Index. If so, interest rates will also be heading up (is that why the bond market looks toppy?). Chart courtesy of *Ned Davis Research.*

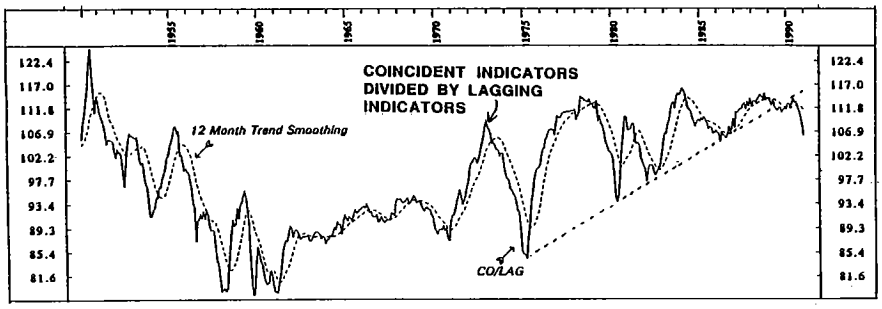


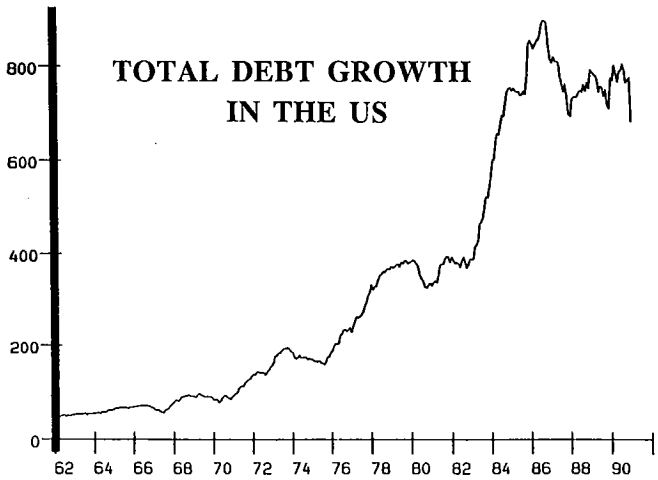
One of the best indicators of the trend of the economy has been **CO/LAG,** the coincident indicators divided by the lagging indicators. Here is another Ned Davis chart (page 4) showing CO/LAG going back to 1949. Lately the Coincident/lagging index has been plunging, indicating a contracting economy. But what caught my eye was CO/LAG breaking below a perfect rising trendline which began forming in 1975. I don't know exactly what this trendline break means, but I wouldn't guess that it's a plus for the economy.

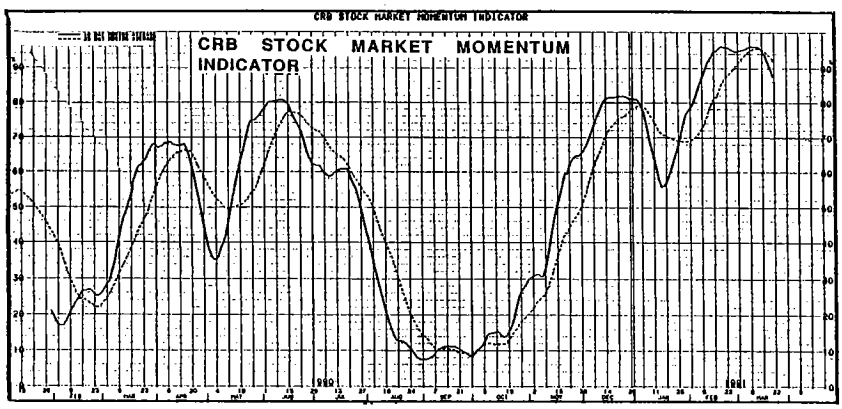
Here's an Ed Hyman chart (page 4) showing the decline and breakdown in **total debt growth in the US.** Nothing like this has been seen in decades. This is the debt "run-off," the beginning of the contraction following decades of debt-building. If it continues, we're going to see deflation with a capital D.

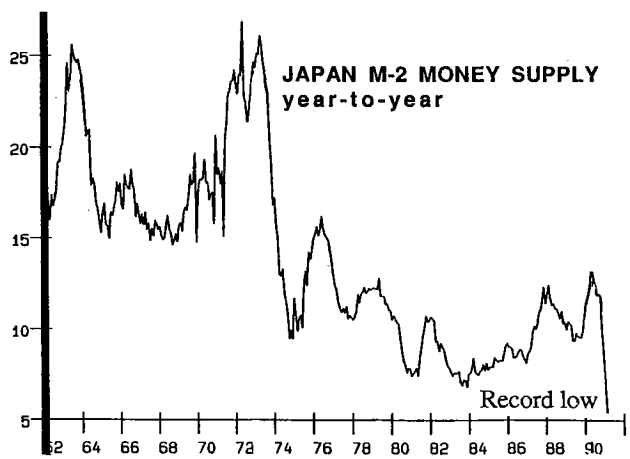
The Fed is well aware of this trend, and it's fighting that trend tooth and nail. The Fed wants to reflate, to start debt growing again. And believe me, the government is doing its part in running up the debt. But the private sector is trying to pay off its debt and it has taken year-to-year debt growth to a record low. As I said, if the trend we see on this chart continues, it's going to be contraction time in America.

The next chart is courtesy of the *Commodity Research Bureau.* This is their **Stock Market Momentum Indicator** based on the percentage of 280 growth-type stocks that are above their 10-week moving averages. The solid line is a 10-day moving average of that figure, while the dotted line is a 25-day moving average.









As you can see, the two lines advanced recently into almost record high territory. Then ten days ago the 10-day MA broke below the 25-day MA, and the 25-day MA turned down. This puts this indicator in the "sell mode," with the sell signal coming from an extreme overbought area. What happens next? There should be considerable downside pressure on the market.

The chart we see next (another Ed Hyman) is a record low for **Japan's M-2 Money Growth** (year-to-year basis). The authorities in Japan have been trying to "gently" soften the speculative fever in Japan, and also to bring down the almost insane price levels of Japanese real estate. Whether they can provide a "soft landing" for an edifice that has grown almost to the sky is debatable. At any rate, we'll watch the Japanese real estate and stock markets. If there's to be major global trouble, it could easily start in Japan. Ed Hyman notes, "Japan's business failures have increased 110% over the past year; for the month of January alone, failures rose over 800%!" The Bank of Japan reported that in February 69 real estate firms went bankrupt, triple the number of the same month a year ago.

The real danger from Japan is of a real estate crash. One study shows that a 50% drop in Japanese real estate values would render worthless one-fifth of the $350 billion Japan's banks have lent to real estate companies. As one expert put it, "A real estate crash in Japan would make today's credit crunch seem like the good old days." It would also topple the already wobbly Japanese stock market as well as the stock markets of the world. With all the action in the Mideast, many analysts have taken their eyes off Japan. I say, watch the Land of the Rising Sun.

NOTES & QUOTES: What's behind the spectacular rally in the dollar? Plenty! To a large extent, it's the massive drop in the other currencies, particularly the German mark. German unification has proved to be a disaster for West Germany. East Germany, it turns out, is non-competitive, a total basket case which will cost hundreds of billions of marks to even begin to bring it into the modern economic world. In East Germany, there are over 8,000 companies which are broke, worthless, and these will have to be dismembered. Furthermore, Germany will have to raise taxes to pay for the East German nightmare, and the massive amounts of new marks that have been issued have brought on fears of inflation. This has caused the Bundesbank to raise rates in order to offset inflation.

The pound and the Swiss franc and most European currencies have declined in harmony with the German mark. Furthermore, the euphoria over the US victory in the Persian Gulf has rubbed off on everything American, and this too has been a big plus for the dollar. On top of everything else, the dollar rally started from a base in which the dollar was severely oversold, and where the dollar was roughly 35% undervalued on a purchasing price parity compared with other major currencies.

The near-collapse of the Soviets is making Europe and its currencies nervous, particularly Germany which has the largest amount invested in the Soviets.

Finally, the yen has declined sharply, and here too a parade of troubles are surfacing. The Bank of Japan has raised rates five times since mid-1989 (to the current 6%) in an effort to stem inflation. In January consumer prices rose 4.2% over a year ago, the biggest jump in a decade.

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What do you mean, Bush has no domestic policy?! Bush has plans to spur oil production, remake Congress, rebuild roads and factories, cut taxes to attract investment, and clear the country's streets of guns and criminals. The only problem is that the country Bush has in mind is Kuwait (from a *NY Times* piece).

* *

While almost half a million allied soldiers look on, Saddam takes over Iraq again, killing thousands of his countrymen with the help of acid, phosphorous bombs, gunships and tanks. So what's the US policy in Iraq now that we've almost "won the truce"? Damned if I know. General Schwarzkopf states that he wanted to go in and finish off the Iraqi army, but Bush said no. General Powell states

that the US will have a permanent presence in the Mideast. I get the feeling that neither Bush nor anyone else in Washington has the slightest idea of what's happening or, for that matter, what we're doing in the Mideast. Bush keeps saying that Saddam will fall. Yeah, good luck. Anyway, it was a hell of a war, and our forces couldn't have looked better.

* *

One thing is clear -- we're writing off a lot of debt that is owed to us. For its "loyalty," Bush erased $7 billion that Egypt owed us. Last week Bush wrote off 70% of the $3.8 billion owed us by Poland. And the word is that Washington is asking, "Who's next?" One State Department source says that every foreign debtor is reassessing its relationship with Washington.

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Speaking of Washington, it was quite a show on March 21. Congress voted another $30 billion for the S&L bailout and the RTC is expected to ask for another $50 billion this fall. That's just the S&L picture. On the same day William Seidman, FDIC chairman, said that the $5 billion that the FDIC would borrow from the Fed would allow the bank insurance agency to borrow an additional $45 billion. A few officials questioned whether leveraging the $5 billion and also counting it on the FDIC's books as an asset wasn't the same kind of phoney accounting that S&L regulators used to stave off the taxpayers of the S&L insurance fund . . . And again on the same day the government borrowed $42 billion to pay for Desert Storm, but the Administration said that most or all of that money would be refunded to the US by various other nations (I have my fingers crossed on that one).

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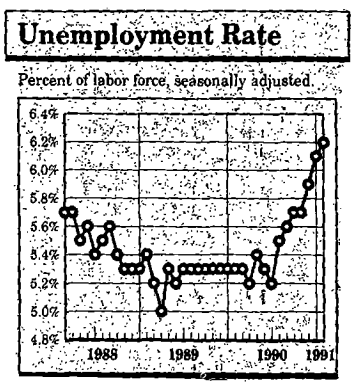

The latest mystery is this: Why does the chart of the Unemployment Rate eerily resemble a chart of the land mass of the United States? Aw, it's just the gods of the market having fun.

* *

Older subscribers know that I am very much against gambling. If you must lose your money, do it intelligently like buying the wrong stock or investing in a restaurant that just doesn't make it. Anyway, I've got some good/bad news. The bad news is that Atlantic City's casinos racked up $3.34 billion in gross revenue last year. The good news is that they lost $265 million in the process. I believe in free enterprise, but I've always felt that the casinos take advantage of people's stupidity. Can you save people from their own innate desire to lose their hard-earned money (yeah, I know, they call it fun)? But explain the "fun" to the wife of a guy who just lost half of the family's savings.

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Wall Street Week and Lou Rukeyser are hardly favorites of stock market analysts. It started when "The Great White Father" bumped respected analyst Bob Nurock from the program (Bob disagreed with Lou). Since Nurock invented the Elves' buy and sell signals, Rukeyser then had to conjure up a new set of signals. His new signals are based on a consensus vote of his "experts." The new consensus mechanism quickly became the laughing stock of serious technicians, since any consensus regarding the trend of the market is liable to be wrong.

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After half a century of white majority in New York City, an historic shift in the population mix has occurred. The non-Hispanic white population of NYC has declined 14.2% since the early-1980s while the Hispanic population has boomed 26.8%. The black population of the City has now increased to 25.2%. Thus, the white population is finally a minority in the City. Said Richard Schaeffer, Director of City Planning, "Put it in perspective, and you end up with the conclusion that New York City is by far the most ethnically and racially diverse city in the world."

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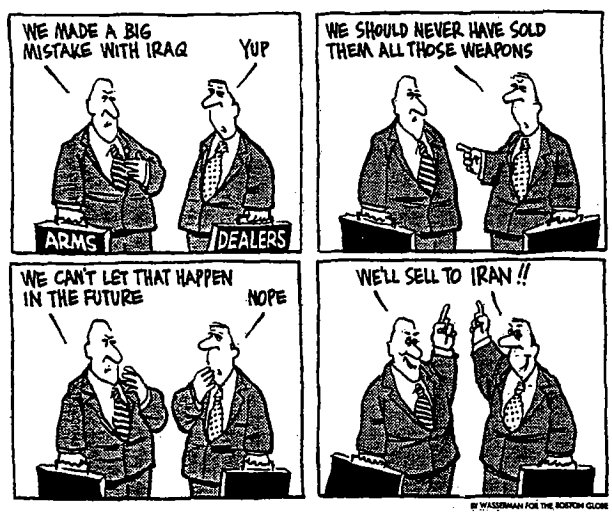
The people who know are not happy about the way US technology is going. Said Andrew Grove, CEO of Intel Corp., recently, "The industrial infrastructure of the US is going to the dogs." Grove worries that the nation's electronics industries are getting battered by foreign competition the way steel and autos did during the '70s and '80s. Confirms Nobel Laureate Leon Lederman, "Academic research in the US is in serious trouble."

Simon Ramo, the famous R behind TRW (he is best known as the early driving force behind Hughes Aircraft) seems to agree. He spoke in San Diego a week ago. Ramo is optimistic for the far future, but for now Ramo doesn't think much of the way research is going in the US. In his speech he said, "In the US the way to get things done is for things to get so bad that everybody appreciates it and knows that something has to be done and insists that something be done . . .Step number one is that things have to get worse. And step number two is then we do something about it, and get it done. I'm optimistic for the next century because step number one -- things getting worse -- is going so well."

* *

War is about money or power or both. It seems that nothing will stop the international mania to sell arms. Responding to pressure from US defense contractors and their Congressional backers, Mr. Bush now wants the Export-Import Bank (a government agency) to underwrite sales of arms to states that can't afford them -- by guaranteeing up to $1 billion in bank loans (that would supplement the loan guarantees the Pentagon already provides). Furthermore, after forgiving Egypt $7 billion in money it owes us, Bush wants to sell Egypt $1.6 billion in new weapons. In fact, in the coming year the Administration wants to sell the Mideast $18 billion in new arms.

But what's really happening? Well, for one thing the US defense budget is declining and there is pressure to make up the difference. The second reason is that the war opened the world's eyes to the power of the US' high technology weapons. Suddenly, everybody wants new weapons. Russia and China and all the Arab nations were reportedly shocked by the war and the utter collapse of Iraq's military. China, Russia and the Arab nations are feeling the pressure to go high-tech in weapons. Russell comment: It's still a mad, mad world. And it's still run by money, greed, and the will to power. And finally, I don't see Mr. Bush or anyone else talking seriously about limiting arms.


WE MADE A BIG MISTAKE WITH IRAQ
YUP
ARMS DEALERS
WE SHOULD NEVER HAVE SOLD THEM ALL THOSE WEAPONS
WE CAN'T LET THAT HAPPEN IN THE FUTURE
NOPE
WE'LL SELL TO IRAN !!

* *

As if the Soviets don't have enough trouble, now the problem is oil. The Soviets are the world's largest producers of oil (just under 11 million barrels per day). And oil exports are the main source of hard currency for the Soviets. But this year, due to outdated technology, a miserably discontented work force and an incompetent bureaucracy, Soviet oil exports are expected to drop nearly 50% -- at a time when the Soviets are particularly hungry for hard currency.

* *

The US auto companies may be having their troubles along with a number of Japanese auto companies including Honda -- but giant Toyota is doing fine. Toyota has over $14 billion in assets, and it earns almost as much from its investments as it does from selling cars and trucks. Its long-term debt is only 22% of total capital, and Toyota's pretax income covers interest expenses more than eight times. That's what you call a powerful company with a powerful financial position!

* *

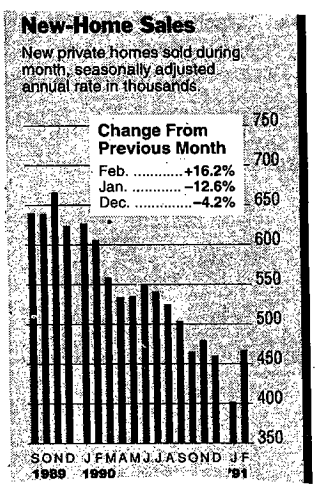
I hate to talk about the budget again but ponder this: In 1991 the Bush Administration hit us with the biggest tax hike in history while promising us that there would be a $500 billion reduction in deficits over the next five years. Well, they revised it to mean that it wasn't exactly a $500 billion reduction, but it would be $500 billion off the planned increases in spending. But wait, in the space of one year everything has changed. Now instead of a $500 billion decrease, there is to be an INCREASE in deficits over the next five years of $802.8 billion. To break it down, according to the Budget of the United States Government,there is to be a deficit of $255 billion in 1991, $255.8 billion in 1992, $207.2 billion in 1993, $72.5 billion in 1994 and $12.3 billion in 1995. That adds up to $802.8 billion in additional debt by 1995. But don't you believe even the new revised figures. The deficit's going to be far more.

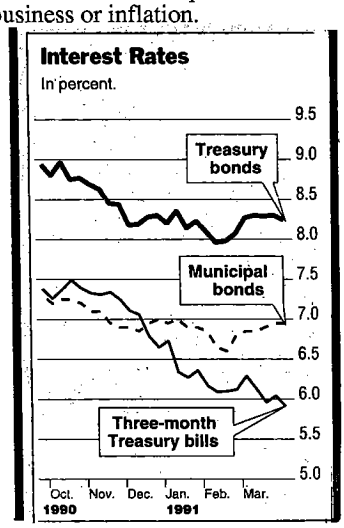
* *

Continental Airlines took a whopping $2.25 billion loss in the fourth quarter. The company's operating loss was $333 million and its net worth is a negative $3.4 billion. If Continental goes into bankruptcy, it is doubtful whether it can come out alive. On another front, Eastern, Pan Am and Continental together have unfunded pension funds of $1.6 billion with about $1.3 billion covered by the Pension Benefit Guarantee Corp. The way things are going, the Pension Benefit outfit could lose hundreds of millions of dollars. Then who guarantees them?

* *

New homes sales popped a bit in February, and the press and the Administration announced that "the recession is over." This chart puts the pop into perspective. In the meantime, long-term interest rates have begun to push up, and this has already begun to firm up mortgage rates. The money markets are now super-sensitive to anything even hinting of better business or inflation.





NEXT MAILING: April 17

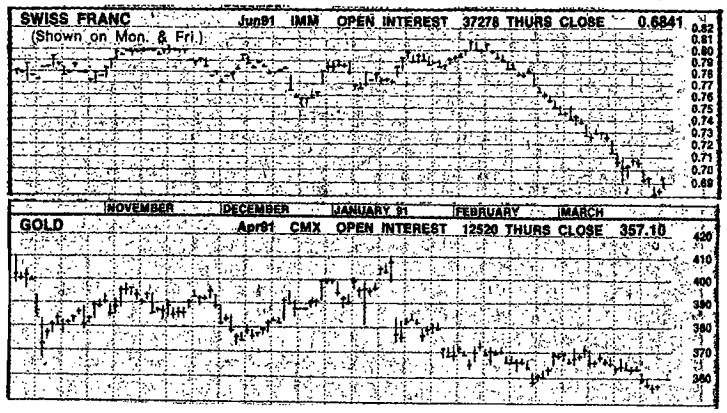
GOLD, MONEY: My old friend, R.E. McMasters, has been writing about commodities (*"The Reaper"*, Box 84901, Phoenix, AZ 85071) for as long as I've known him (which is a long time). R.E. writes that gold has been ignoring a lot of fundamentals such as inflation, the war, the skyrocketing federal debt, the collapse of the Soviets. Says R.E., "I have followed markets for over 20 years. It's been my experience that when investors over a long period of time consistently ignore what should be bullish fundamentals -- then when the market does come surging back to life, it makes up for lost ground in a hurry. Could this be the situation with gold?"

Good question, and I've asked myself that same thing. The gold detractors tell us that gold has gone out of style. That if you want to diversify out of dollars you buy Deutsche marks or Swiss francs -- and you draw interest as well. So who needs gold? That's the prevailing argument, that's the prevailing sentiment.

But behind almost all of the major currencies are reserves in dollars (average percentage of dollars reserves behind major currencies -- 70%). Let me put it this way, if the dollar should collapse one day, I think it would shake all paper currencies. First, it would shake them because the dollar constitutes a large percentage of most nations' reserves. And second, if we see a real dollar crash, such action would obviously mean great trouble in the US economy. If that was the case, the global economy would also be hurt, and that in turn would cause many investors to seek the safety of gold.

Remember this: CONFIDENCE is the hidden ingredient behind all fiat (paper) currency. Let the confidence evaporate and all that's left is the paper. We should understand that printed paper is money only because the government says it is. On your dollar it states that this is "legal tender for all debts, public and private." There's no intrinsic value in the dollar, only that government edict. But gold is money because 5,000 years of history accepts it as money. Gold is money because it's rare, because it can't be printed, because men sweat to get it out of the ground, because it's beautiful, because it possesses real intrinsic value.

February-March has seen an explosive rise in the dollar, plus a mirror collapse in the other currencies as seen in this chart of the Swiss Franc. In the meantime, gold bobs around its old supply levels in the 355-360 area (Charts courtesy of *Investor's Daily*).


SWISS FRANC Jun91 IMM OPEN INTEREST 37278 THURS CLOSE 0.6841
(Shown on Mon. & Fri.)
NOVEMBER DECEMBER JANUARY 91 FEBRUARY MARCH
GOLD Apr91 CMX OPEN INTEREST 12520 THURS CLOSE 357.10

CLOSED-END FUNDS: What if an investor wants to dollar average into stocks, regardless of what the market does? Or what if a person wants to invest strictly on the mode (bullish or bearish) of the PTI? What stocks does he buy? I've been recommending certain closed-end funds almost from the time I started these Letters. My choices are Tri-Continental, Saloman Bros. Fund (formerly, the Lehman Fund) and General American Investors. I like the two Zweig Funds (Zweig Fund and Zweig Total Return) but Marty Zweig is popular and his funds tend to sell near or above assets. TY shares currently sell at 24 although each share owns 27.52 of high-grade assets, Salomon sells at 12 1/2 but each share owns 15.07 of assets and General American sells at 21 3/8 but each share owns 25.33 of assets. So discount from net asset value is 12.3% for TY, a fat 17% for SBF and a juicy 15.6% for GAM.

I've been dollar averaging these three funds for my kids for years. It's a good way to go, but dollar averaging means that Dow 500 or Dow 5,000 you've got to keep buying. I've always liked discounted closed-end funds as a part of any diversification program. Dollar averaging any or all three of these funds means you're buying a high-grade, cross section of the market at a discount.

LATE NOTES: The first quarter's gone, and there are three to go. The first quarter's market action was obviously a bet on the end of the recession and much better times ahead. The second quarter will see the market make a more serious adjustment to what lies ahead for the rest of the year. If Wall Street loves what it sees, there will be a mild backing off and then higher prices. If Wall Street is nervous and noncommittal, there will be a good correction. If Wall Street is frightened at what it sees, the Averages will break down, and we'll see serious and sustained selling.